

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

*Paw Paw Fire Department*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended February 28, 2005*

---

## CONTENTS

---

	<i>Page</i>
<b>INDEPENDENT AUDITORS' REPORT</b>	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Governmental fund balance sheet/statement of net assets	4
Statement of revenues, expenditures, and changes in fund balance/ statement of activities	5
Notes to financial statements	6 - 7
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule - Operating Fund	8 - 9

## INDEPENDENT AUDITORS' REPORT

**Members of the Board  
Paw Paw Fire Department**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Paw Paw Fire Department (the Fire Department) as of February 28, 2005, and for the year then ended, which collectively comprise the Fire Department's financial statements, as listed in the contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, management has not recorded capital assets in governmental activity and, accordingly, has not recorded depreciation expense on those assets. U.S. generally accepted accounting principles require that these assets be capitalized and depreciated. This would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the governmental activities of the Paw Paw Fire Department as of February 28, 2005, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund as of February 28, 2005, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

*Siegfried Crandall P.C.*

April 30, 2006

## **BASIC FINANCIAL STATEMENTS**

**Paw Paw Fire Department**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**

February 28, 2005

---

	<u>Operating Fund</u> <u>Statement of net assets</u>
<b>ASSETS</b>	
Cash	\$ 65,850
Due from local units	6,076
Prepaid expenses	<u>2,225</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 74,151</u></b>
<b>LIABILITIES AND FUND BALANCE/NET ASSETS</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 11,548
<b>FUND BALANCES/NET ASSETS</b>	
Reserved fund balance/temporarily restricted net assets	4,347
Unreserved fund balance/unrestricted net assets	<u>58,256</u>
<b>Total fund balances/net assets</b>	<b><u>62,603</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES/NET ASSETS</b>	<b><u>\$ 74,151</u></b>

See notes to financial statements

***Paw Paw Fire Department***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCE/STATEMENT OF ACTIVITIES**

*Year ended February 28, 2005*

---

**EXPENDITURES/EXPENSES:**

Public safety:

Ready to serve

\$ 83,842

Fire run charges

32,171

Total public safety

116,013

Capital outlay

203,537

Total expenditures/expenses

319,550

**PROGRAM REVENUES:**

Charges for services

179,850

Interest and other

1,671

Total revenues

181,521

DEFICIENCY OF REVENUES OVER EXPENDITURES/CHANGE  
IN NET ASSETS

(138,029)

FUND BALANCE/NET ASSETS - BEGINNING

200,632

FUND BALANCE/NET ASSETS - ENDING

\$ 62,603

*See notes to financial statements*

**Paw Paw Fire Department**  
**NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Paw Paw Fire Department (the Fire Department), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles), as applicable to governments except as to capital assets (item "d" below). The following is a summary of the more significant accounting policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Fire Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Fire Department has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Fire Department's financial statements. Also, the Fire Department is not a component unit of any other entity.

Cost of operations and capital expenditures are supported by contributions from the participating municipalities, which currently consists of the Village of Paw Paw and the Townships of Paw Paw, Waverly, Almena, and Antwerp.

*b) Basis of presentation:*

The accounts of the Fire Department are organized on the basis of a fund which is considered a separate accounting entity. The operations are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. The fund is described as follows:

Operating Fund - this fund is the general operating fund of the Fire Department. It is used to account for all financial resources except those required to be accounted for in another fund.

*c) Basis of accounting:*

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements.

The Fire Department prepares its financial statements on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

*d) Capital assets:*

The Fire Department has not recorded capital assets in governmental activity and, accordingly, has not recorded depreciation expense on those assets. Generally accepted accounting principles require that those assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.



**Paw Paw Fire Department**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*e) Budgets and budgetary accounting:*

The Fire Department follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Acts of 1978), as prescribed by the State of Michigan. The budget for the Operating Fund is adopted at the functional level and is consistent with generally accepted accounting principles.

**NOTE 2 - CASH:**

*Deposits with financial institutions:*

At February 28, 2005, the Fire Department has deposits with a carrying amount of \$65,850 and a bank balance of \$66,406. The entire bank balance is covered by federal depository insurance.

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information:*

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The budget document presents information by function and line items. The legal level of budgetary control adopted by the governing body is the line item level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. Significant actual expenditures in excess of budgeted are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital outlay	<u>\$ 18,400</u>	<u>\$ 203,537</u>	<u>\$ 185,137</u>

**NOTE 4 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Fire Department is exposed to various risks of loss for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of loss arising from possible claims are managed through the purchase of commercial insurance.

## **SUPPLEMENTARY INFORMATION**

**Paw Paw Fire Department**  
**BUDGETARY COMPARISON SCHEDULE - Operating Fund**  
Year ended February 28, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES:			
Local unit contributions:			
Almena Township	\$ 30,506	\$ 30,506	\$ -
Antwerp Township	20,495	20,495	-
Paw Paw Township	98,111	98,111	-
Waverly Township	30,738	30,738	-
Total local unit contributions	179,850	179,850	-
Interest	800	1,377	577
Other	-	294	294
Total revenues	180,650	181,521	871
EXPENDITURES:			
Public safety:			
Ready to serve:			
Insurance	25,128	22,903	2,225
Rent	12,600	12,600	-
Uniforms	11,657	11,898	(241)
Meals	9,834	9,429	405
Training	2,500	2,501	(1)
Operating supplies	4,185	4,164	21
Utilities	4,620	4,456	164
Telephone	4,000	3,609	391
Contributions	527	505	22
Radio maintenance	2,800	2,818	(18)
Office supplies	579	658	(79)
Fire safety	2,400	2,400	-
Volunteer benefits	1,638	1,571	67
Audit	2,900	-	2,900
Computer operations	150	105	45
Medical service	372	222	150
Travel	2,800	2,793	7
Postage	400	305	95
Membership and dues	230	204	26
Equipment rental	279	269	10
Ladder testing	432	432	-
Total ready to serve	\$ 90,031	\$ 83,842	\$ 6,189

**Paw Paw Fire Department****BUDGETARY COMPARISON SCHEDULE - Operating Fund**

Year ended February 29, 2005

---

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (continued):			
Public safety (continued):			
Fire run charges:			
Repairs and maintenance - vehicle	\$ 29,092	\$ 28,613	\$ 479
Gas and oil	<u>4,218</u>	<u>3,558</u>	<u>660</u>
Total fire run charges	<u>33,310</u>	<u>32,171</u>	<u>1,139</u>
Total public safety	123,341	116,013	7,328
Capital outlay	<u>18,400</u>	<u>203,537</u>	<u>(185,137)</u>
Total expenditures	<u>141,741</u>	<u>319,550</u>	<u>(177,809)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	38,909	(138,029)	(176,938)
FUND BALANCE - BEGINNING	<u>141,457</u>	<u>200,632</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 180,366</u>	<u>\$ 62,603</u>	<u>\$ (176,938)</u>

**Members of the Board  
Paw Paw Fire Department  
P.O. Box 179  
Paw Paw, MI 49079**

In planning and performing our audit of the basic financial statements of the Paw Paw Fire Department, Michigan, for the year ended February 28, 2005, we considered the Department's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on internal control. However, we noted the following matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements.

***Accountability for activity of separate checking account - Paw Paw Volunteer account:***

***Finding:***

The general ledger is not updated on a timely basis for receipts and disbursements of the Paw Paw Volunteer account. As the Paw Paw Volunteer group is not a legally separate entity, all monies placed therein (regardless of source or purpose) to be considered public monies, the expenditure of which is subject to all State statutes, laws, and regulations governing legal expenditures by a local unit of government (which includes intergovernmental agencies, authorities, and departments).

***Recommendations:***

While the Department may want to continue the practice of allowing a committee to oversee the activity of the Paw Paw Volunteer account, certain administrative policies and procedures should be considered.

- The committee should be provided a copy of the attached article, "Determining Lawful Expenditures," which is available at the Michigan Department of Treasury website. This article will also be of interest to the Fire Department. The committee and the Fire Department should obtain a copy of *On-Call Fire Departments: The Department Board's Responsibilities*, by Lawrence Merrill. While written from the perspective of a Department board, it discusses how a fire department may want to conduct business so as to avoid potential areas of conflict with its member local units of government.

- If the accounts are to remain in the custody of the Department, there should be periodic reporting to the Department Board of monies received, expended, and remaining balances. Such reporting should be used to update the Department's financial reporting (including budgetary compliance).
- Information regarding disbursements to individuals that represent compensation must be provided to the Department in a timely manner so that the annual Form 1099s may be prepared and submitted to the IRS as required (\$600 or more in a year to an individual and all legal fees paid).

Should the committee establish a legally separate entity to own the account, the Department cannot make contributions to the account; all payments must be in exchange for itemized products or services purchased by the Department from the legally separate entity.

#### **Capital assets inventory**

##### ***Finding:***

Detail records of the Department's investment in capital assets and changes therein have not been maintained. By not maintaining such information, accountability over all economic resources of the Fire Department cannot be demonstrated. In addition to incomplete financial reporting, management runs the risk of not having knowledge about adequacy of insurance coverage, expected capital outlay needs, and the relationship of repairs and maintenance to the level of fixed assets.

##### ***Recommendations:***

The Department should develop a capitalization policy that is practical and understandable, to assist in identifying current year changes in fixed assets. Using the capitalization criteria, the Department should perform a physical inventory of existing assets that will show asset description, date acquired, and actual or estimated cost.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions shown above are material weaknesses.

Paw Paw Fire Department  
Page 3

This report is intended solely for the information and use of the Paw Paw Fire Department's Board of Directors, management, others within the Department, and the Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Sigfried Crandall P.C.*

April 30, 2006